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Economic Research

Economic Briefing

US economy is expanding faster than expected

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The US economy grew by 2.8% in the second quarter of 2024, which was stronger than expected. We see this as confirmation of our assessment that the US economy will not slide into recession. Nevertheless, the Federal Reserve is likely to start cutting interest rates in the not too distant future because inflation is easing noticeably.

Data: In the second quarter of 2024, the US economy grew by 2.8% (these and all subsequent growth rates are annualized rates of change against the previous quarter). This was even stronger than we had expected (consensus 2.0%, Commerzbank forecast 2.2%).

Details: Growth was broad-based, with the exception of construction. Investments in equipment (+11.6%) and in intellectual property such as software (+4.5%) in particular increased. This may reflect the AI boom. The government also increased spending noticeably (+3.1%), as did private consumers (+2.3%). Here, falling inflation supported real disposable income.

In contrast, residential construction (-1.4%) and commercial construction (-3.3%) contracted due to high interest rates. In the latter, the impetus provided by various government subsidy programs, such as for the construction of chip factories, is obviously waning.

Imports rose sharply, with many companies possibly wanting to bring their goods to the US before tariffs are raised. Inventories increased significantly as a result. Overall, however, this had no impact on growth.

Interpretation: The US economy was unable to maintain its very high growth rate in the third (4.9%) and fourth quarters of 2023 (3.4%) this year. However, we had already pointed out in our commentary three months ago that the weaker growth of 1.4% in the first quarter of 2024 was due to one-off factors in inventories and foreign trade and that the underlying pace of growth remains quite high. Today's figures confirm this assessment: in the second quarter, the economy once again expanded faster than the trend growth rate which the Federal Reserve puts at 1.8% (Chart 1).

However, we continue to expect the economy to lose momentum due to the after-effects of the Fed's rate hikes. The labor market, for example, is increasingly showing signs of cooling. At the same time, however, there are no indications that the US economy will

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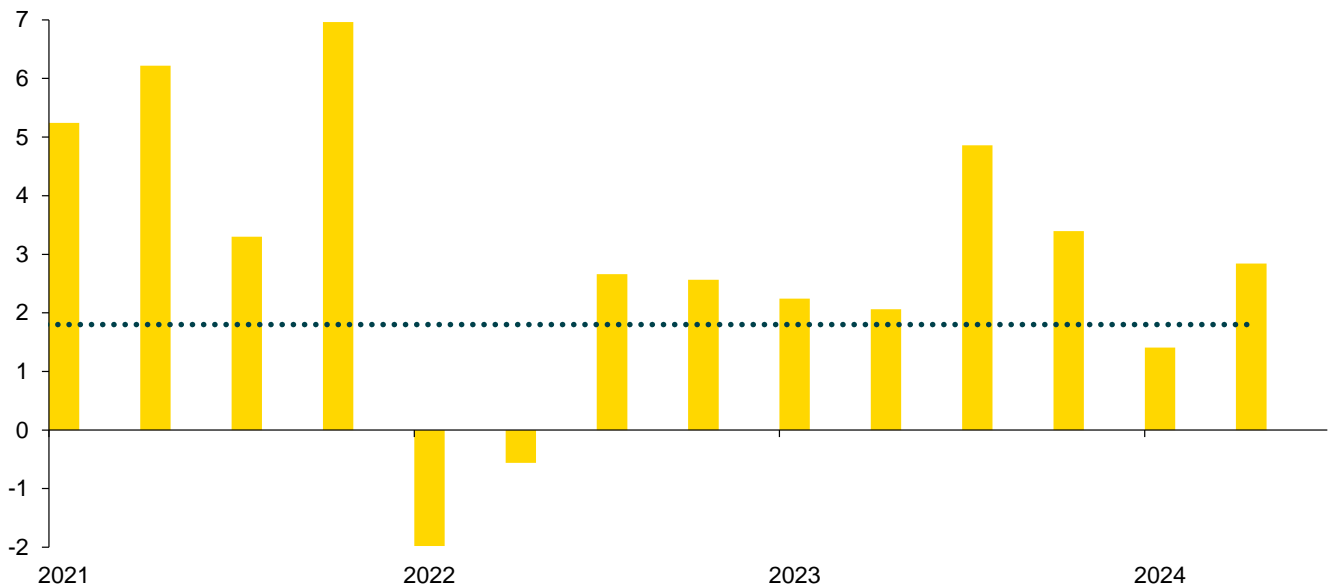
plunge into recession. This is because financing conditions have recently improved again for most sectors and strong immigration is supporting private consumption.

Fed: Goldilocks?

The Fed has recently become somewhat more concerned about the real economy, not least due to a certain slowdown in the labor market. However, fears of a slump in growth, which arose after the relatively low growth in the first quarter and some sentiment indicators fell in recent months, have not yet been confirmed. On the contrary, the economy appears to be growing unperturbed so far. This is good news for the Fed. After all, its interest rate hikes have helped inflation to calm down considerably. However, the usual side effect of a monetary policy stepping on the brakes – a slump in the real economy – has failed to materialize. The Fed can continue to hope that it has succeeded in achieving a soft landing for the US economy. Provided that inflation now moves towards the target value of 2% (the deflator of personal consumption expenditures rose by 2.6% annualized in the second quarter), the Goldilocks scenario is perfect. The Fed can increase the chances of this if it begins cutting interest rates in the not too distant future.

Chart 1 - US economy still growing above trend

real GDP, quarter-on-quarter change, annual rate in %. Dotted line: trend growth according to Fed's estimate



Source: S&P Global, Commerzbank Research

**Table 1 - US Gross Domestic Product, real**

		2024Q2	2024Q1	2023Q4	2023Q3	2023	2022
GDP	qq	2.8	1.4	3.4	4.9		
	yy	3.1	2.9	3.1	2.9	2.5	1.9
Private consumption	qq/yy	2.3	1.5	3.3	3.1	2.2	2.5
Government purchases	qq/yy	3.1	1.8	4.6	5.8	4.1	-0.9
Non-residential investment	qq/yy	5.2	4.4	3.7	1.4	4.5	5.2
Residential investment	qq/yy	-1.4	16.0	2.8	6.7	-10.6	-9.0
Domestic demand	qq/yy	3.5	2.0	3.1	4.7	1.9	2.3
Net exports *		-0.7	-0.7	0.3	0.0	0.6	-0.5

Source: BEA, S&P Global, Commerzbank Research. qq/yy: change vs. previous quarter (annualized)/previous year in %.* Contribution to GDP growth in percentage points.



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